



Workshop Summary: Exploring Development Impact Bonds in Nutrition

Center for Global Development, February 24th, 2014

Workshop Objectives

CGD convened experts in nutrition and/or innovative finance in Washington DC and London for a workshop on February 24th about Development Impact Bonds (DIBs). The objective of the workshop was to initiate a discussion among various actors who have been exploring or are interested in exploring how a DIB structure could be used to improve development outcomes in the nutrition sector. The workshop sought to stimulate more concrete thinking on this topic and organize a discussion around a few key questions, including:

- Is a DIB suitable for the nutrition sector? Can DIBs address current challenges in this sector?
- Do suitable outcome indicators and evidence-based interventions exist to design a nutrition DIB?
- What might some of the obstacles to implementing a DIB be?
- What might be an appropriate scale for pilots be?
- Who are the potential players and what are the next steps?

The discussion covered three broad topics: clarifying concepts around what DIBs are and the value that they can add; considering design issues for a nutrition DIB; and identifying possible ways to move towards implementation.

Summary of Discussion

Clarifying concepts: *What are Development Impact Bonds and what value can they bring to nutrition sector programs?*

- Participants clarified that a Development Impact Bond is an outcomes-based contracting structure; the financial structure is more like an equity investment than a traditional bond.
- Private social impact investors such as foundations or high net worth individuals would be the most likely investors in a DIB; under the basic structure, investors would manage program implementation via an intermediary, and governments or donors would repay investors with a return if programs achieve results.
- DIBs should not be thought of primarily as a financial model, but also as a new business model. They are designed to organize people to deliver services in a more effective way.

- The need to leverage additional sources of funding for nutrition and incentivize multi-sectoral coordination might strengthen the case for both a new financial and new business model.
- DIBs are attractive to some because of the idea of bringing in “new money”; however investors must get repaid if the DIB works. New money could come in if DIBs attract donors or outcome funders that otherwise would not be active in this sector.
- Questions arose around the cost-efficiency of DIBs. There are two main added costs of DIBs:
 - Compensating investors for risk of failure: DIBs make these costs explicit.
 - Transaction costs: These are particularly high in the early design phase but expected to go down throughout the course of the program; they include costs of the process of all parties understanding the deal and building better systems for measuring outcomes.
- Independent verification would be a crucial component of a DIB; measurement and verification would be financed with the money from the initial investment.
- Questions remain around whether DIBs strengthen government capacity vs. create parallel models:
 - Would investors support system strengthening by investing in governments? Are there other ways to build government capacity - for example capacity to commission private service providers? In what contexts might parallel models be acceptable?
 - These questions should be explored in the context of specific pilots proposed.
- Participants highlighted some of the current challenges to scaling up effective interventions in the nutrition sector, including:
 - Malnutrition is less visible than other problems.
 - The group that suffers the most is the most politically marginalized.
 - Nutrition issues have been conflated with health and with agriculture; however, nutrition has not really fit into either sector.
 - To address problems like stunting, “one third” of the problem has been solved (per The Lancet article series), but that does not provide enough of an evidence base to easily plan and launch a program.
 - Cultural and gender issues are important and have not been explored enough.
 - Nutrition interventions are expensive.
 - Mistrust exists between government and private sector groups that are involved.
- General views were that DIBs could help to address the above challenges because:
 - The structure could help to provide clarity for the multiplicity of actors involved.
 - It could help to bring on board new actors from the private sector (including local, country-based companies) as well as “laggard donors” who want to scale up funding for the nutrition sector but don’t have plans for how to do so.
 - It would provide a clearer, stronger focus on outcomes.
 - DIBs could create incentives for better and more frequent measurements of key indicators like stunting.
 - Flexible, adaptive systems of service delivery and improved feedback loops could allow for the experimentation that is needed to build the evidence base for what works in nutrition – including, but also beyond, health-based interventions.

Design issues for nutrition DIB pilots

- Stunting is an attractive outcome indicator for a nutrition DIB because it is measurable; current efforts to reduce stunting have clearly been insufficient; and it is a goal a wide range of stakeholders would support -- recent global commitments as well as country plans for nutrition involve stunting targets.
- Other indicators to consider include lives saved, maternal and/or child anemia, and cognitive development of young children.
- A measure like anemia could be used as an intermediate output indicator.
- Any DIB pilots will have to address the issue of attribution: how closely must outcomes be linked to causality of DIB interventions?
- Nutrition DIBs should balance innovation and evidence: there may be a risk of “too much innovation” in both financing and operations that could be unappealing to investors.
- Implementers must bear in mind the high early costs of design and measurement.
- Overall, design issues were viewed as challenging but soluble: participants broadly agreed that technical issues could be addressed if there is enough buy-in in the concept.
- There were questions around the appropriate scale for a DIB pilot.
 - Funders may be more likely to come on board for larger scale programs. The high transaction costs are a deterrent for small-scale pilots.
 - On the other hand, starting small is a way to test what works and adapt accordingly.

Next steps

- Participants agreed that a ‘test period’ for DIBs in the nutrition sector is needed now, to demonstrate advantages of a DIB over alternative funding approaches.
- Country-specific feasibility work is needed, with attention to results indicators and measurement strategies, payment mechanisms and investor returns, overall costing, and possible partnership leaders.
- GAIN has begun feasibility work on a nutrition DIB in Mozambique. Participants remarked on the need to document and learn from design and implementation experience of DIB pilots, in nutrition and other sectors.
- Participants were optimistic that the announcement of a DIB pilot or pilot fund could help to raise the profile of nutrition, in developing countries and in the context of post-2015 discussions.
- Potential outcome funders would have to come forward early in the process of getting a deal together. Representatives of intermediary organizations discussed engaging governments and donor agencies, or being approached by them, as a first step in designing SIBs/DIBs. Specific ideas that were discussed during the workshop include:
 - Grand Challenges Canada will potentially put out an RFP, which would link proposed nutrition DIBs with outcome funding.

- Committing to fund the successful outcomes of DIB pilots could be a way to use increased funding commitments made at the Nutrition for Growth seminar, for example, by governments of the US, UK, Canada, and Germany.
- Ideally, a small number of DIBs would be tested, in different locations. The group was interested in exploring the idea of setting up funds for DIBs, for either *outcomes* or *investment*, which would pay for 2-3 pilots.
 - One existing opportunity to explore is the Catalytic Financing Facility for Nutrition, set up CIFF, DFID, and the UBS Foundation, and whether a portion of funds could be used as flexible funding to invest in DIB pilots.
- Participants also noted that there are challenges to being the “first movers” on DIBs.
 - Getting pilots going will require a small number of organizations who are willing to take risks.
 - It will be important to build an evidence base for DIBs and their benefits compared to alternative funding approaches.
- Workshop participants are following up on possibilities to play a role in the design and implementation of DIBs within their organizations and with potential partners.
- CGD plans to remain involved by:
 - Using feedback from the workshop to produce a concept note that would provide some technical guidance for the early phase of DIB design.
 - Continuing to play a convening role as work in this area progresses, perhaps around specific issues of interest such as funding, implementation issues or outcome metrics.
 - Sharing learning as pilots progress.

Workshop participants

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